

CITY OF ALTON, IOWA
Alton, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended
June 30, 2012

CITY OF ALTON, IOWA

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CITY OF ALTON, IOWA

OFFICIALS

Name	Title	Term Expires
Ron Minten	Mayor	January, 2013
Blake Bengard	Mayor Pro-Tem	January, 2013
Leon Kleinhesselink	Council Member	January, 2015
John Menning	Council Member	January, 2013
Matthew Laverman	Council Member	January, 2013
Steve Zenor	Council Member	January, 2015
Dale Oltmans	City Administrator	January, 2013
Laurie Stoos	Deputy Clerk	January, 2013
Brad DeJong	Attorney	January, 2013



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Alton, Iowa
Alton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Alton, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Alton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Alton, as of June 30, 2012 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 on our consideration of the City of Alton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alton's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams & Company, P.C.
Certified Public Accountants

October 29, 2012
Le Mars, Iowa

CITY OF ALTON, IOWA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The City of Alton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the General Fund increased \$40,364 due to property tax and library receipts.
- Disbursements of the General Fund increased \$112,068 for fiscal year 2012 due to capital expenditures for the Community Center, storm sirens, and economic development incentives.
- The City's total General Fund cash basis net assets decreased \$60,747 for fiscal year 2012. This is due to capital expenditures for the Community Center, storm sirens, and economic development incentives. New capital equipment and building funds have been established and transfers made to build up funds for future capital expenses. Also earmarked funds in the General Fund were moved to Capital Project funds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The City's Basic Financial Statements consist of a Government Wide Statement of Activities and Net Assets – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Statements of Cash Receipts, Disbursements, and Changes in Cash Balances for Governmental Funds and Proprietary Funds provides information at the fund level. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information

and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

The statement of activities and net assets presents the City's net assets on a cash basis. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax, state and federal grants, and charges for services finance most of these activities.
- Business-type activities include the electric, water, sewer and gas. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Gas Fund.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, to \$662,901 from \$677,901. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for Service	\$134,968	\$ 110,413
Operating Grants & Contributions	159,053	159,811
General Receipts		
Property Tax	439,908	408,906
Tax Increment Financing Collections	379,446	291,157
Local Option Sales Tax	129,891	122,252
Interest	4,169	10,017
Other General Receipts	77,947	21,841
Sale of Assets	627	900
Total Receipts	1,326,009	1,125,297
Disbursements:		
Public Safety	185,800	161,462
Public Works	193,667	197,230
Health and Social Services	6,399	1,470
Culture and Recreation	194,050	144,356
Community and Economic Development	76,576	342,510
General Government	91,228	92,994
Debt Service	362,761	371,327
Capital Projects	314,000	53,890
Total Disbursements	1,424,481	1,365,239
(Decrease) in Cash Basis Net Assets Before Transfers	(98,472)	(239,942)
Net Transfers	83,472	(63,878)
Cash Basis Net Assets – Beginning of Year	677,901	954,198
Prior Period Adjustment	-	27,523
Cash Basis Net Assets – Beginning of Year Restated	677,901	981,721
Cash Basis Net Assets – End of Year	\$662,901	\$ 677,901

Changes in Cash Basis Net Assets of Business Type Activities

	2012	2011
Receipts:		
Operating Receipts:		
Water	\$226,496	\$ 206,342
Electric	803,280	871,462
Sewer	117,706	107,176
Gas	424,207	528,666
Interest	13,094	22,657
Total Receipts	1,584,783	1,736,303
Disbursements:		
Operating Disbursements:		
Water	232,224	235,020
Electric	850,731	864,527
Sewer	158,184	149,530
Gas	405,139	474,006
Total disbursements	1,646,278	1,723,083
Net Change in Cash Basis Net Assets, Before Transfers	(61,495)	13,220
Net Transfers	(83,472)	63,878
Cash Basis Net Assets – Beginning of Year	1,821,945	1,744,847
Cash Basis Net Assets – End of Year	\$1,676,978	\$ 1,821,945

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Alton completed the year, its governmental funds reported a combined fund balance of \$662,901, a decrease of \$15,000 over last year's total of \$677,901.

The cash balance in the General fund decreased by approximately \$60,000 during 2012 due primarily to increases in public safety and culture and recreation disbursements. All other major governmental funds remained consistent with the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

As the City of Alton completed the year, its business type funds reported a combined fund balance of \$1,676,978, a decrease of \$144,967 over last year's total of \$1,821,945. The following are the major reasons for the changes in fund balances of the business type funds from the prior year.

- Decrease in receipts in the electric and gas funds totaling approximately \$175,000 and smaller decreases in those funds disbursements account for the majority of the decrease in cash balances.
- The business type activities transferred money to the governmental funds this year where in the prior year they received transfers from the governmental funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. This amendment was approved on June 19, 2012 and resulted in an increase in budgeted disbursements of \$139,090.

DEBT ADMINISTRATION

A comparison of the City's debt outstanding at June 30, 2012 to June 30, 2011 follows:

	Year Ended June 30,	
	2012	2011
G.O. Bonds and Notes	\$ 1,750,000	\$ 2,040,000
Water Revenue Bonds	77,000	83,000
Gas Revenue Bonds	660,000	680,000
Total	<u>\$ 2,487,000</u>	<u>\$ 2,803,000</u>

ECONOMIC FACTORS

The City purchased a \$25,587 pickup for streets.

The City contributed \$314,000 towards the purchase of a used Fire Rescue/Pumper truck.

The City spent \$40,134 on a roof, new flooring, lighting and other renovations for the Community Center.

The City provided financial incentives to a party who purchased and renovated a vacant building to start up a new Sports Bar and Grille.

The City constructed a new dugout at Kiernan field at a cost of \$3,559.

The City purchased and installed two new storm sirens along with installing a third purchased in the previous year, for a total cost of \$31,358.

The City completed overlay and sealing of several streets at a cost of \$29,421.

The City provided financial incentives to a party who purchased an existing contracting business.

The City provided financial incentives to a party who purchased and relocated the local appliance and outdoor equipment business.

The City provided financial incentives to the City of Orange City towards a new nursing home.

The City provided financial incentives to a party who purchased an existing Liquor store.

The City rebated property taxes paid by Sioux Golf and Country club to SGCC for economic development purposes.

The City signed a development agreement and is providing financial incentives for Ag Partners for a \$6.5 million dollar expansion.

The City received a donation of 13.65 acres of developed property within the Industrial Park. All streets and infrastructure are in place.

The City expanded about 2,247 feet of natural gas distribution in Fair View Meadows 2nd Addition, Phase 1.

The City completed a sewer lining project on 10th and 11th streets at a cost of \$58,283.

The City recently completed an electric rate study. Overall water rates will increase 5%. Rates will increase due to rising wholesale power supply and transmission expense along with increasing operating expenses. Rate increases will also fund planned revenue-financed capital expenditures while maintaining adequate cash reserves.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Dale Oltmans, City Administrator, Alton, Iowa.

CITY OF ALTON, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
For the Year Ended June 30, 2012

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
Public Safety	\$ 185,800	\$ 13,261	\$ 10,138
Public Works	193,667	77,741	125,074
Health and Social Services	6,399	-	-
Culture and Recreation	194,050	13,180	23,841
Community and Economic Development	76,576	-	-
General Government	91,228	30,786	-
Capital Outlay	314,000	-	-
Debt Service:			
Principal	290,000	-	-
Interest	72,761	-	-
Total Governmental Activities	1,424,481	134,968	159,053
Business-Type Activities:			
Electric Utility	850,731	803,280	-
Sewer Utility	158,184	117,706	-
Water Utility	232,224	226,496	-
Gas Utility	405,139	424,207	-
Total Business-Type Activities:	1,646,278	1,571,689	-
Total Primary Government	\$ 3,070,759	\$ 1,706,657	\$ 159,053

General Receipts:
Property taxes
Tax Increment Financing
Local Option Sales Tax
Interest
Sale of Assets
Miscellaneous
Interfund Transfers
Total general receipts and transfers
Change in cash basis net assets
Net assets cash basis - beginning
Net assets cash basis - ending

Cash Basis Net Assets
Restricted:
Streets
Urban Renewal Purpose
Debt Service
Capital Projects
Local Option Sales Tax
Employee Benefits
Unrestricted
Total Cash Basis Net Assets

See Accompanying Notes to Financial Statements

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (162,401)		\$ (162,401)
9,148		9,148
(6,399)		(6,399)
(157,029)		(157,029)
(76,576)		(76,576)
(60,442)		(60,442)
(314,000)		(314,000)
(290,000)		(290,000)
(72,761)		(72,761)
<u>(1,130,460)</u>		<u>(1,130,460)</u>
	\$ (47,451)	(47,451)
	(40,478)	(40,478)
	(5,728)	(5,728)
	19,068	19,068
	<u>(74,589)</u>	<u>(74,589)</u>
<u>(1,130,460)</u>	<u>(74,589)</u>	<u>(1,205,049)</u>
439,908	-	439,908
379,446	-	379,446
129,891	-	129,891
4,169	13,094	17,263
627	-	627
77,947	-	77,947
83,472	(83,472)	-
<u>1,115,460</u>	<u>(70,378)</u>	<u>1,045,082</u>
(15,000)	(144,967)	(159,967)
677,901	1,821,945	2,499,846
<u>662,901</u>	<u>1,676,978</u>	<u>2,339,879</u>
96,742	-	96,742
67,619	-	67,619
41,012	76,333	117,345
224,571	-	224,571
82,143	-	82,143
6,521	-	6,521
144,293	1,600,645	1,744,938
<u>\$ 662,901</u>	<u>\$ 1,676,978</u>	<u>\$ 2,339,879</u>

See Accompanying Notes to Financial Statements

CITY OF ALTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
For the Year Ended June 30, 2012

	General	Special Revenue Tax Increment Financing	Capital Project Capital Equipment
Receipts:			
Property Taxes	\$ 247,152	\$ -	\$ -
TIF Revenue	-	310,574	-
Licenses and Permits	30,789	-	-
Intergovernmental	33,329	-	-
Charges for Services	86,254	-	-
Sale of Lots	627	-	-
Fines	1,784	-	-
Special Assessments	-	-	-
Rental of City Property	9,795	-	-
Interest on Investments	2,268	625	503
Miscellaneous	33,569	-	44,613
Total Receipts	445,567	311,199	45,116
Disbursements:			
Public Safety	183,276	-	-
Public Works	82,120	-	-
Health and Social Services	5,899	-	-
Culture and Recreation	183,243	-	-
Community and Economic Development	58,277	-	-
General Government	74,690	-	-
Capital Outlay	-	-	314,000
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
Total Disbursements	587,505	-	314,000
Excess (Deficiency) of Receipts to Disbursements	(141,938)	311,199	(268,884)
Other financing sources (uses):			
Transfers In	151,347	-	277,699
Transfers Out	(70,156)	(279,261)	-
Total other financing sources (uses)	81,191	(279,261)	277,699
Net Change in Cash Balances	(60,747)	31,938	8,815
Cash Balances Beginning of Year	212,231	25,374	69,136
Cash Balances End of Year	\$ 151,484	\$ 57,312	\$ 77,951
Cash Basis Fund Balances:			
Restricted for:			
Debt service	\$ -	\$ -	\$ -
Economic Development	-	57,312	-
Streets	-	-	-
Employee Benefits	-	-	-
Other Purposes	-	-	-
Assigned to:			
Capital Equipment	-	-	77,951
Capital Improvements	-	-	-
Library	32,151	-	-
Unassigned:	119,333	-	-
	\$ 151,484	\$ 57,312	\$ 77,951

See Accompanying Notes to Financial Statements

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 190,843	\$ 1,913	\$ 439,908
-	68,872	379,446
-	-	30,789
-	245,230	278,559
-	-	86,254
-	-	627
-	-	1,784
16,141	-	16,141
-	-	9,795
550	222	4,168
-	356	78,538
207,534	316,593	1,326,009

-	2,524	185,800
1,000	110,547	193,667
500	-	6,399
-	10,807	194,050
500	17,799	76,576
-	16,538	91,228
-	-	314,000
290,000	-	290,000
72,761	-	72,761
364,761	158,215	1,424,481
(157,227)	158,378	(98,472)

162,570	102,318	693,934
-	(261,045)	(610,462)
162,570	(158,727)	83,472
5,343	(349)	(15,000)
35,669	335,491	677,901

\$ 41,012	\$ 335,142	\$ 662,901
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\$ 41,012	\$ -	\$ 41,012
-	10,307	67,619
-	96,742	96,742
-	6,521	6,521
-	82,143	82,143
-	-	77,951
-	146,620	146,620
-	-	32,151
-	(7,191)	112,142
\$ 41,012	\$ 335,142	\$ 662,901

See Accompanying Notes to Financial Statements

CITY OF ALTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds	
	Electric Utility	Water Utility
Operating Receipts:		
Charges for Services	\$ 803,280	\$ 226,496
Total Operating Receipts	<u>803,280</u>	<u>226,496</u>
Operating Disbursements:		
Operating Disbursements	822,232	217,126
Capital Outlay	28,499	6,608
Total Operating Disbursements	<u>850,731</u>	<u>223,734</u>
Excess (Deficiency) of Receipts Over Disbursements	<u>(47,451)</u>	<u>2,762</u>
Non-Operating Receipts (Disbursements):		
Interest Income	6,402	3,025
Interest Expense	-	(2,490)
Principal Payments	-	(6,000)
Total Non-Operating Receipts (Disbursements)	<u>6,402</u>	<u>(5,465)</u>
Excess (Deficiency) of Receipts Over Disbursements	<u>(41,049)</u>	<u>(2,703)</u>
Transfers In	100,619	17,844
Transfers Out	<u>(227,699)</u>	<u>(5,000)</u>
Change in Cash Balances	(168,129)	10,141
Cash Balances Beginning of Year	<u>896,804</u>	<u>346,472</u>
Cash Balances End of Year	<u><u>728,675</u></u>	<u><u>356,613</u></u>
Cash Basis Net Assets		
Restricted for Debt Service	-	-
Unrestricted	728,675	356,613
Total Cash Basis Net Assets	<u>\$ 728,675</u>	<u>\$ 356,613</u>

Enterprise Funds		
Sewer Utility	Gas Utility	Total
\$ 117,706	\$ 424,207	\$ 1,571,689
117,706	424,207	1,571,689
94,582	338,105	1,472,045
63,602	6,914	105,623
158,184	345,019	1,577,668
(40,478)	79,188	(5,979)
1,931	1,736	13,094
-	(40,120)	(42,610)
-	(20,000)	(26,000)
1,931	(58,384)	(55,516)
(38,547)	20,804	(61,495)
36,290	5,474	160,227
(5,000)	(6,000)	(243,699)
(7,257)	20,278	(144,967)
317,776	260,893	1,821,945
310,519	281,171	1,676,978
-	76,333	76,333
310,519	204,838	1,600,645
\$ 310,519	\$ 281,171	\$ 1,676,978

See Accompanying Notes to Financial Statements

CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Alton is a political subdivision of the State of Iowa located in Sioux County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, health and social services, community and economic development and general government services. The City also provides water, sewer, electrical, and natural gas utilities for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Alton has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Alton has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Emergency Management Commission, Northwest Iowa Solid Waste, Northwest Iowa Economic Development Coalition, and Northwest Iowa Regional Housing Authority.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

Capital Project:

Capital Equipment Fund is used to accumulate resources used for equipment acquisitions.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The City of Alton maintains its financial records on the basis of cash receipts and disbursements which is an other comprehensive basis of accounting and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and other accrued items as well as fixed assets. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in Culture and Recreation and Community and Economic Development functions.

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2012 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper;

**CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – CASH AND POOLED INVESTMENTS (CONTINUED)

perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2012; however the City's time deposits were as follows:

	<u>Maturities</u>	
Nonnegotiable Certificates of Deposit	1/12/13 - 12/13/13	<u>\$ 400,109</u>

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3 – BONDS AND NOTES PAYABLE

The following is a summary of bond transactions of the City for the year ended June 30, 2012:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Bonds and Notes Payable by Debt Service Fund</u>	<u>Bonds and Notes Paid by Enterprise Funds</u>
Primary Government		
Bonds and notes payable July 1, 2011	\$ 2,040,000	\$ 763,000
Plus: bonds and notes issued	-	-
Less: payments	(290,000)	(26,000)
Bonds and notes payable June 30, 2012	<u>1,750,000</u>	<u>737,000</u>
Due within one year	<u>\$ 285,000</u>	<u>\$ 31,000</u>

The City of Alton had the following outstanding bonds as of June 30, 2012:

<u>Bond/Note</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2012</u>	<u>Due Within One Year</u>
General Obligation- Series 2009A	09/23/09	3.00-4.05%	2020	\$55,000 - \$85,000	\$ 725,000	\$ 605,000	\$ 65,000
General Obligation- Series 2010	06/01/10	1.5-3.05%	2017	\$70,000 - \$150,000	680,000	390,000	130,000
General Obligation- Hospital	11/14/05	3.40-4.85%	2025	\$20,000 - \$35,000	500,000	380,000	20,000
General Obligation- Paving	06/26/07	4.00-4.45%	2017	\$60,000 - \$80,000	685,000	375,000	70,000
Water Revenue Bond	10/15/03	3.00%	2023	\$5,000 - \$8,000	125,000	77,000	6,000
Gas Revenue Bond	03/24/09	5.90%	2029	\$20,000 - \$60,000	680,000	660,000	25,000
Total Bonds Due					<u>\$ 3,395,000</u>	<u>\$ 2,487,000</u>	<u>\$ 316,000</u>

CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	Series 2009A 10 th Street Bond		Series 2010 GO Bond		Hospital Project Bond		Industrial Park Paving Bond		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 65,000	\$ 21,480	\$130,000	\$ 9,690	\$ 20,000	\$ 17,333	\$ 70,000	\$16,328	\$ 285,000	\$ 64,831
2014	65,000	19,400	60,000	7,090	25,000	16,513	70,000	13,353	220,000	56,356
2015	70,000	17,320	60,000	5,680	25,000	15,463	75,000	10,343	230,000	48,806
2016	75,000	15,080	70,000	4,270	25,000	14,388	80,000	7,080	250,000	40,818
2017	80,000	12,643	70,000	2,136	25,000	13,288	80,000	3,560	255,000	31,627
2018–2022	250,000	20,129	-	-	155,000	47,225	-	-	405,000	67,354
2023–2027	-	-	-	-	105,000	10,115	-	-	105,000	10,115
Total	\$605,000	\$106,051	\$390,000	\$28,866	\$380,000	\$134,325	\$375,000	\$50,664	\$1,750,000	\$319,907

Year Ending June 30	Gas Utility Revenue Note		Water Revenue Bond		Total Business Type Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 25,000	\$ 38,940	\$ 6,000	\$ 2,310	\$ 31,000	\$ 41,250
2014	25,000	37,465	6,000	2,130	31,000	39,595
2015	25,000	35,990	6,000	1,950	31,000	37,940
2016	30,000	31,515	7,000	1,770	37,000	33,285
2017	30,000	32,745	7,000	1,560	37,000	34,305
2018 – 2022	175,000	135,405	37,000	4,620	212,000	140,025
2023 – 2027	235,000	77,585	8,000	240	243,000	77,825
2028 – 2032	115,000	10,325	-	-	115,000	10,325
Total	\$ 660,000	\$ 399,970	\$ 77,000	\$14,580	\$ 737,000	\$414,550

The City has pledged future water utility receipts, net of specified operating disbursements, to repay \$125,000 of water revenue bonds issued in October 2003. Proceeds from the bonds provided financing for the construction of water main extensions. The bonds are payable solely from water customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the bond is \$91,580. For the current year, principal and interest paid and total customer net receipts were \$8,490 and \$9,370, respectively.

The City has pledged future gas utility receipts, net of specified operating disbursements, to repay \$680,000 of gas revenue bonds issued in March 2009. Proceeds from the bonds provided financing for construction of the City's gas infrastructure. The bonds are payable solely from gas customer net receipts and are payable through 2029. The total principal and interest remaining to be paid on the bond is \$1,059,970. For the current year, principal and interest paid and total customer net receipts were \$60,120 and \$86,102, respectively.

The resolution providing for the issuance of the gas revenue bond includes the following provisions:

- (a) The bond will only be redeemed from future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the gas bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

**CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

- (c) The Reserve Fund shall be used to maintain the Reserve Fund Requirement per the resolution. In each month there shall be deposited in the Reserve Fund an amount equal to 25% of the amount required by this Resolution to be deposited in such month in the Sinking Fund.
- (d) Additional monthly transfers of \$500 to a Gas Improvement Fund within the Enterprise Funds shall be made until specific minimum balances have been accumulated. Money in this account shall be used solely for the purpose of paying the cost of capital maintenance expenses or repairs to the System, including metering and billing systems, if necessary. Whenever it shall become necessary to so use the money in the Improvement Fund, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount.

The City complied with these provisions.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

The City's payroll for employees covered by the System for the year ended June 30, 2012 was \$347,986. The total City payroll for the fiscal year was \$383,642. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$28,063, \$21,712, and \$20,053, respectively, equal to the required contributions for each year.

NOTE 5 – RISK MANAGEMENT

The City of Alton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Alton assumes liability for any deductibles and claims in excess of coverage limitations. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ALTON, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012, is as follows:

Transfers In	Transfers Out							Total
	General	TIF	Nonmajor Governmental	Electric	Water	Sewer	Gas	
General	\$ -	\$ -	\$ 151,347	\$ -	\$ -	\$ -	\$ -	\$151,347
Debt Service	-	162,570	-	-	-	-	-	162,570
Capital Equipment	27,000	-	7,000	227,699	5,000	5,000	6,000	277,699
Nonmajor								102,318
Governmental	43,156	-	59,162	-	-	-	-	
Electric	-	77,280	23,339	-	-	-	-	100,619
Water	-	4,379	13,465	-	-	-	-	17,844
Sewer	-	29,558	6,732	-	-	-	-	36,290
Gas	-	5,474	-	-	-	-	-	5,474
Total	\$ 70,156	\$ 279,261	\$ 261,045	\$ 227,699	\$ 5,000	\$ 5,000	\$ 6,000	\$ 854,161

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.
3. TIF transfers are used to repay debt obligations from enterprise funds.

CITY OF ALTON, IOWA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property Taxes	\$ 439,908	\$ -	\$ 439,908	\$ 435,270	\$ 435,270	\$ 4,638
TIF Revenue	379,446	-	379,446	393,923	393,293	(13,847)
Licenses and Permits	30,789	-	30,789	14,205	14,205	16,584
Intergovernmental	278,559	-	278,559	421,794	421,794	(143,235)
Charges for Services	86,254	1,571,689	1,657,943	1,870,064	1,870,064	(212,121)
Sale of Lots	627	-	627	-	-	627
Special Assessments	16,141	-	16,141	12,538	12,538	3,603
Rental of City Property	9,795	-	9,795	-	-	9,795
Interest on Investments	4,168	13,094	17,262	62,600	62,600	(45,338)
Miscellaneous	80,322	-	80,322	58,800	74,413	5,909
Total Receipts	1,326,009	1,584,783	2,910,792	3,269,194	3,284,177	(373,385)
Disbursements						
Public Safety	185,800	-	185,800	169,043	189,693	3,893
Public Works	193,667	-	193,667	199,748	209,168	15,501
Health and Social Services	6,399	-	6,399	11,000	11,000	4,601
Culture and Recreation	194,050	-	194,050	169,103	175,123	(18,927)
Community and Economic Development	76,576	-	76,576	46,993	61,493	(15,083)
General Government	91,228	-	91,228	107,618	110,218	18,990
Capital Projects	314,000	-	314,000	249,000	334,350	20,350
Debt Service	362,761	-	362,761	364,260	364,810	2,049
Business Type / Enterprises	-	1,646,278	1,646,278	1,975,741	1,975,741	329,463
Total Disbursements	1,424,481	1,646,278	3,070,759	3,292,506	3,431,596	360,837
(Deficiency) of receipts over disbursements	(98,472)	(61,495)	(159,967)	(23,312)	(147,419)	(12,548)
Other financing sources (uses):						
Transfers In	693,934	160,227	854,161	764,014	1,032,364	(178,203)
Transfers (Out)	(610,462)	(243,699)	(854,161)	(764,014)	(1,032,364)	178,203
Total other financing sources (uses)	83,472	(83,472)	-	-	-	-
(Deficiency) of receipts and other financing sources over disbursements and other financing uses	(15,000)	(144,967)	(159,967)	(23,312)	(147,419)	(12,548)
Balances Beginning of Year	677,901	1,821,945	2,499,846	2,499,846	2,499,846	-
Balances End of Year	\$ 662,901	\$ 1,676,978	\$ 2,339,879	\$ 2,476,534	\$ 2,352,427	\$ (12,548)

**CITY OF ALTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
JUNE 30, 2012**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the adopted budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budget disbursements by \$139,090. The budget amendment is reflected in the final budgeted amounts. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Culture and Recreation and Community and Economic Development functions.

CITY OF ALTON, IOWA

COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH BALANCES

Governmental Nonmajor Funds

For the Year Ended June 30, 2012

	Special Revenue Funds			
	Road Use Tax	Employee Benefits	Local Option Sales Tax	Housing TIF
Receipts:				
Property Taxes	\$ -	\$ 1,913	\$ -	\$ -
TIF Revenue	-	-	-	68,872
Intergovernmental	115,339	-	129,891	-
Interest on Investments	-	-	-	-
Miscellaneous	-	-	-	-
Total Receipts	115,339	1,913	129,891	68,872
Disbursements:				
Public Safety	-	2,524	-	-
Public Works	85,126	25,421	-	-
Culture and Recreation	-	10,807	-	-
Community and Economic Development	-	5,911	-	-
General Government	-	16,538	-	-
Total Disbursements	85,126	61,201	-	-
Excess (Deficiency) of Receipts over Disbursements	30,213	(59,288)	129,891	68,872
Other financing sources (uses):				
Transfers In	-	64,048	-	-
Transfers Out	(22,417)	-	(170,000)	(68,628)
Total other financing sources (uses)	(22,417)	64,048	(170,000)	(68,628)
Net Change in Cash Balances	7,796	4,760	(40,109)	244
Cash Balances Beginning of Year	88,946	1,761	122,252	10,063
Cash Balances End of Year	\$ 96,742	\$ 6,521	\$ 82,143	\$ 10,307
Cash Basis Fund Balances:				
Restricted for:				
Economic Development	\$ -	\$ -	\$ -	\$ 10,307
Streets	96,742	-	-	-
Employee Benefits	-	6,521	-	-
Other purposes	-	-	82,143	-
Assigned to:				
Capital Improvements	-	-	-	-
Unassigned:	-	-	-	-
	\$ 96,742	\$ 6,521	\$ 82,143	\$ 10,307

Capital Project Funds					Total Governmental Nonmajor Funds
Parks & Trails	Housing Rehabilitation	Industrial Park	Capital Streets	Residential Development	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,913
-	-	-	-	-	68,872
-	-	-	-	-	245,230
216	-	-	6	-	222
355	-	1	-	-	356
571	-	1	6	-	316,593
-	-	-	-	-	2,524
-	-	-	-	-	110,547
-	-	-	-	-	10,807
-	-	10,350	-	1,538	17,799
-	-	-	-	-	16,538
-	-	10,350	-	1,538	158,215
571	-	(10,349)	6	(1,538)	158,378
9,000	23,745	-	5,525	-	102,318
-	-	-	-	-	(261,045)
9,000	23,745	-	5,525	-	(158,727)
9,571	23,745	(10,349)	5,531	(1,538)	(349)
21,646	80,082	3,158	-	7,583	335,491
\$ 31,217	\$ 103,827	\$ (7,191)	\$ 5,531	\$ 6,045	\$ 335,142
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,307
-	-	-	-	-	96,742
-	-	-	-	-	6,521
-	-	-	-	-	82,143
31,217	103,827	-	5,531	6,045	146,620
-	-	(7,191)	-	-	(7,191)
\$ 31,217	\$ 103,827	\$ (7,191)	\$ 5,531	\$ 6,045	\$ 335,142



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Alton
Alton, Iowa

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Alton, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City of Alton's basic financial statements listed in the table of contents and have issued our report thereon dated October 29, 2012. The financial statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City of Alton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Alton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Alton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as items II-A-12 to be a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Alton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we

noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Alton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Alton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Alton and other parties to whom the City of Alton may report. This report is not intended to be used and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Alton during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.


Certified Public Accountants

Le Mars, Iowa
October 29, 2012

CITY OF ALTON, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Part I – Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

MATERIAL WEAKNESS:

II-A-12 Financial Accounting – Segregation of Duties

Observation – The City accountant is involved in almost all phases of the finance operations, including check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – With a limited number of personnel, segregation of duties is difficult. The City should implement management review procedures which we feel would aid in improving the internal control of the City.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

Part III – Other Findings Related to Statutory Reporting

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the Culture and Recreation and Community and Economic Development functions.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-12 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF ALTON, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Part III – Other Findings Related to Statutory Reporting – (Continued)

- III-D-12 **Business Transactions** – There were no business transactions between the City and City officials or employees noted.
- III-E-12 **Bond Coverage** – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- III-F-12 **Council Minutes** – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-12 **Revenue Notes** – The City was in compliance with the requirements of its revenue notes.
- III-H-12 **Deposits and Investments** – No instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policies were noted.